

PAYING
DIVIDENDS
TO
AMERICA

UNICOR

1999 Annual Report

MISSION STATEMENT

It is the mission of Federal Prison Industries, Inc. to employ and provide skills training to the greatest practicable number of inmates confined within the Federal Bureau of Prisons; contribute to the safety and security of our Nation's correctional facilities by keeping inmates constructively occupied; produce market-priced quality goods for sale to the Federal Government; operate in a self-sustaining manner; and minimize FPI's impact on private business and labor.

WHAT IS UNICOR?

UNICOR is the trade name of Federal Prison Industries, Inc. (FPI), a wholly-owned government corporation established by Congress on June 23, 1934, to provide job skills training and employment for inmates serving sentences in the Federal Bureau of Prisons.



*President Franklin D. Roosevelt by authority of Congress
ordered the creation of Federal Prison Industries, Inc.
in 1934 by Executive Order No. 6917.*

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FISCAL YEAR 1999 AT A GLANCE



OPERATION HIGHLIGHTS

<i>(millions of dollars)</i>	<i>1998</i>	<i>1999</i>
Net Sales	\$534.3	\$566.2
Gross Profit	\$ 37.3	\$ 61.0
Net Income	\$ -2.4	\$ 16.6
Purchases from Private Sector	\$418.8	\$423.4
Inmates Employed	20,213	20,966



ATTORNEY GENERAL

JANET RENO

PAYING DIVIDENDS TO AMERICA

An Introduction by the Attorney General

For many years, the Department of Justice has been resolute in its commitment of resources, both human and monetary, to combat crime. New crime-fighting initiatives, changes in our Nation's laws, and tougher sentencing guidelines have had a positive impact in reducing crime in our cities and neighborhoods. However, there has been a significant increase in the number of offenders committed to our federal correctional institutions.

At the federal level, millions of dollars are spent each year apprehending, investigating, prosecuting, and incarcerating criminals. However, incarceration alone will not rehabilitate the typical offender. It is important that correctional programs be in place to provide inmates the opportunity to learn how to become responsible citizens. The reality is that 98 percent of the inmates will eventually be released, some of them as our neighbors.

We all want government to do more and cost less. This is where Federal Prison Industries (FPI), a component of the Federal Bureau of Prisons, plays a vital role. Inmates who work for FPI have a chance to work in diversified work programs that can lead to viable employment upon release. When inmates are constructively working, the safety and security of federal institutions are not compromised. Thus, FPI promotes safety in our communities and reduces public assistance costs. In addition, FPI fosters business partnerships with the private sector, providing financial benefits to local communities. The final outcome is market-priced, quality products for sale to federal agencies—at no cost to the taxpayers.

As a self-sustaining government program, FPI represents an incredible investment in developing human potential and pays significant dividends to America.



Janet Reno

PAYING DIVIDENDS TO

THE FEDERAL BUREAU OF PRISONS

As the twentieth century draws to a close, the challenges for the Federal Bureau of Prisons (Bureau) have never been greater. The federal inmate population is at an all-time high: over 133,000 at the end of Fiscal Year 1999. The forecast is for a 50 percent increase, to nearly 200,000 inmates, by the end of Fiscal Year 2006, a mere 7 years away!

Congress has provided funding for additional prisons, and 30 more facilities are currently under development. Unfortunately, the inmate population will grow faster than the additional facilities can be activated. This will overcrowd Bureau facilities over the next several years to a systemwide level of

30 percent beyond capacity.

The federal inmate population increase is driven by increased law enforcement and prosecutorial initiatives and by longer sentences. More emphasis has been placed on enforcing the southwest border, cracking down on methamphetamine distribution, and on offenses involving weapons. Additionally, the transfer of inmates from the District of Columbia Department of Corrections to the Bureau will increase the federal population by over 7,000. Finally, it appears that the discrepancy in sentence lengths



Kathleen Hawk Sawyer
Director/Chief Executive Officer

Dr. Hawk Sawyer is a career public administrator in the Department of Justice. She received a B.A. in Psychology from Wheeling Jesuit College and an M.A. and Ed.D. in Counseling and Rehabilitation from West Virginia University.

Dr. Hawk Sawyer began her career with the Bureau of Prisons as a psychologist at the Federal Correctional Institution (FCI) in Morgantown, West Virginia in 1976, and was named Chief of Psychology Services for the institution in 1983. Following a number of assignments, Dr. Hawk Sawyer became Associate Warden at FCI Fort Worth, Texas in 1985, Chief of Staff Training in 1986, and Warden at FCI Butner, North Carolina in 1987.

Dr. Hawk Sawyer was the Assistant Director for the Program Review Division in Washington, D.C., from 1989 until her appointment as Director in December 1992.

DIRECTOR, CHIEF EXECUTIVE OFFICER

KATHLEEN HAWK SAWYER

for crack and powder cocaine may ultimately be addressed by Congress through increased sentences for powder cocaine offenses. If this legislation is adopted, it will increase the Bureau population by another 9,000 inmates over the next 10 years.

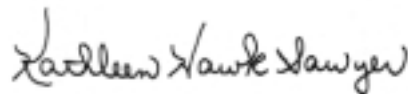
The Bureau is the end of the line in the federal criminal justice system. It is the last stop for those individuals whose offenses and/or prior criminal histories preclude their eligibility for probation or other less severe sanctions. There appears to be strong support for the current public policy of putting more offenders in prison for longer periods of time. At the same time, there is strong public sentiment that additional measures can and should be taken to reduce recidivism.

FPI is the Bureau's most important correctional program. By employing 25 percent of the work-eligible inmates, FPI assists in the management of overcrowded prisons, contributing directly to the safety of staff and inmates. Empirical research has demonstrated conclusively that FPI has a significant positive impact on reducing prison misconduct and post release recidivism. Operating off sales revenue instead of appropriated funds,

FPI precludes the need for alternative inmate programs, lowering annual prison management costs to taxpayers by hundreds of millions of dollars.

At the close of last fiscal year, Congress was considering legislation to substantially change the manner in which FPI operates. The leading bill would reduce FPI's reliance on the federal market and encourage the use of inmates to make products that would otherwise be made by foreign labor outside the United States. This legislation would provide for higher rates of inmate pay, requiring FPI to operate more efficiently. This would provide a more realistic work environment for inmates.

In 2000, we look forward to the continued viability of FPI. Its success is critical to the management of the Federal Bureau of Prisons.



Kathleen Hawk Sawyer

Director,

Federal Bureau of Prisons

Chief Executive Officer,

Federal Prison Industries

MADE IN AMERICA:

DIVIDENDS FOR ALL

What if there was a corporation that paid billions of dollars in dividends and that cost its shareholders nothing to own? What an investment! What a price/earnings ratio! Well, there really is such a corporation and, whether you know it or not, you're an owner.

FPI is a very unique corporation. It is owned by the Federal Government (that means **you**). It costs the taxpayer (that's **you** again) nothing to operate. It generates thousands of private sector jobs (**you** may have one of them). It teaches inmates work ethics and job skills that have been empirically proven to lower recidivism. This, in turn, reduces future criminal justice costs (which **you** would otherwise pay) and improves public (**your**) safety. Suffice it to say, we all receive dividends from the success of this corporation.

However, it is important to note that FPI faces a set of unique challenges that differs from most other businesses. By law, its products

may only be sold to the Federal Government; its sales are driven by the growth in the federal inmate population, over which FPI has no control; instead of hiring the best qualified journeyman workers, it employs unskilled, undereducated inmates, many of whom have never held a job; rather than pursue the biggest market share possible, it seeks no more than a "reasonable" share; rather than aggressively compete, it seeks to minimize competition so as to avoid adverse impact on private industry; instead of focusing on excelling in a small number of products or services, it deliberately diversifies its production across hundreds of separate items, so as to diffuse any impact on a particular industry.

Furthermore, the ever-present balance between the unique correctional program

Joseph M. Aragon, Chairman
Represents Retailers and Consumers
Appointed to the Board August 1994



Mr. Aragon is the President and Chief Executive Officer of ProServe Corporation, an award-winning, growth-oriented food service management company founded in 1984. ProServe was recognized as the Small Business Administration's Prime Contractor of the Year for 1996. It was featured on the covers of *Hispanic Business* and *Colorado Business* Magazines' "fastest growing companies" editions. Mr. Aragon was named Small Business Person of the Year for Colorado in 1998.

Mr. Aragon currently serves on several civic and charitable boards. He has held various management positions in the Federal Government, including 4 years as Director of the Bureau of Prisons' training academy for correctional food service, training staff and inmates. Mr. Aragon is a graduate of Florida State University (B.S. in Management, 1978).

FPI BOARD OF DIRECTORS

JOSEPH M. ARAGON

21,000 Inmates Employed and Trained at No Expense to the Taxpayer

4,800 American Jobs Directly Supported

\$423,000,000 in Raw Materials, Supplies, Equipment, and Services Purchased from Private Vendors

\$294,700,000 in Government Sales Waived and Redirected to the Private Sector

24% Reduction in Recidivism

\$2,500,000 Per Year Paid by Inmates Toward Victim Restitution, Fines, and Child Support

priorities (reducing inmate idleness, teaching inmates job skills, and reducing recidivism) and the traditional business priorities (being financially self-sustaining, producing quality products and services, and continuously improving customer service and satisfaction) make FPI a challenging corporation to manage.

FPI maintains and manages two types of inventory: production materials and output in various stages of completion, and a growing inmate workforce in various stages of training and skills development. The provision of quality products and services to FPI's customers is an extremely high priority, but it is ultimately a means to an end. For FPI, the highest priority is to take its inmate resources and (through job training and skills development in a real life work environment) better prepare inmates for a successful return to

society upon their release from prison.

Unlike most other Federal Government programs, FPI does not rely on taxpayer funding for its operations. Revenue is generated from the sale of products and services to federal agencies. Thus, purchases that would be made by government agencies anyway, fund the FPI program.

The FPI program is governed by a Board of Directors appointed by the President. On the following pages, the other Board members will share some of the reasons why FPI is such a good investment for the American people.

Joseph M. Aragon, Member
FPI Board of Directors

Note: The Board seat representing the Secretary of Defense was vacant at the end of Fiscal Year 1999. The Board extends its thanks and appreciation to Todd Weiler, Deputy Assistant Secretary of the Army, for his contributions while serving on the Board from March 4, 1996 to May 26, 1999.

PAYING DIVIDENDS TO INMATES

As a nation, we endorse the fullest utilization of our workforce. When people work, they make substantial economic contributions, both as producers and as consumers. The same has not been true for inmate labor. Historically, little has been done to develop inmates' skills and prepare them for participation in the workforce. As a result, more than a million jailed and imprisoned men and women, who are generally in their prime work years, contribute very little to the economy, to reimbursing their victims, to supporting their families, or to defraying the cost of their incarceration.

The primary mission of FPI is to reduce inmate idleness in the Nation's overcrowded federal prisons and to teach inmates work skills that will improve their prospects for a successful reintegration into society. The record is clear; FPI has been very successful on both fronts. The fact that these important accomplishments are realized without additional costs to the taxpayer

is an important dividend that makes the value of FPI's correctional program all the more compelling.

The programmatic value of FPI cannot be overemphasized. Inmate employment in FPI pays dividends to the inmates by teaching them a work ethic and providing them with job skills. Many FPI inmates also participate in academic and vocational training programs that further enhance their prospects for post release employment. Approximately 25 percent of the work-eligible inmates are employed in FPI and, on a typical day, nearly 40 percent of the Bureau's designated inmates participate in one or more educational and vocational training programs. These work and educational experiences have been proven to promote successful reintegration of inmates into society and the workforce.



Susan A. Loewenberg, *Member*
Represents Industry
Appointed to the Board May 1995

Ms. Loewenberg has worked in the communications industry since 1974 and is currently the Producing Director of L.A. Theatre Works. She has been involved in correctional issues at the local, state, and federal levels and has been actively involved in developing various innovative communications and educational training programs in federal institutions nationwide, and in the state prison system in California.

Ms. Loewenberg currently supervises a program for at-risk youth in collaboration with the Los Angeles County Board of Education, Special Schools Division for Incarcerated Youngsters. She is a graduate of Sarah Lawrence College.

FPI BOARD OF DIRECTORS

SUSAN A. LOEWENBERG

Industrial Programs, Locations, Inmate Employment, and Net Sales as of September 1999 *(Dollars in Thousands)*

Textiles	Electronics	Furniture	Metals	Graphics/Services
<ul style="list-style-type: none"> ■ Alderson, WV ■ Atlanta, GA ■ Bastrop, TX ■ Beaumont, TX ■ Bryan, TX ■ Butner, NC ■ Dublin, CA ■ Edgefield, SC ■ Fort Dix, NJ ■ Greenville, IL ■ Jesup, GA ■ Leavenworth, KS ■ Manchester, KY ■ Miami, FL ■ Oakdale, LA ■ Otisville, NY ■ Ray Brook, NY ■ Safford, AZ ■ Sandstone, MN ■ Seagoville, TX ■ Terre Haute, IN ■ Tucson, AZ ■ Yazoo City, MS ■ Waseca, MN 	<ul style="list-style-type: none"> ■ Beaumont, TX ■ Big Spring, TX ■ Boron, CA ■ Danbury, CT ■ Estill, SC ■ Fairton, NJ ■ Lexington, KY ■ Lompoc, CA ■ Loretto, PA ■ Marion, IL ■ Memphis, TN ■ Oxford, WI ■ Petersburg, VA ■ Phoenix, AZ ■ Rochester, MN ■ Three Rivers, TX 	<ul style="list-style-type: none"> ■ Allenwood, PA ■ Ashland, KY ■ Beckley, WV ■ Dublin, CA ■ Florence, CO ■ Forrest City, AR ■ Leavenworth, KS ■ Lompoc, CA ■ Marianna, FL ■ Sheridan, OR ■ Taft, CA ■ Talladega, AL ■ Tallahassee, FL ■ Texarkana, TX 	<ul style="list-style-type: none"> ■ Coleman, FL ■ El Reno, OK ■ Lewisburg, PA ■ McKean, PA ■ Milan, MI ■ Morgantown, WV ■ Pekin, IL ■ Schuylkill, PA ■ Terminal Island, CA 	<ul style="list-style-type: none"> ■ Bastrop, TX ■ Butner, NC ■ Carswell, TX ■ Cumberland, MD ■ Dublin, CA ■ Eglin, FL ■ El Paso, TX ■ Elkton, OH ■ Fort Dix, NJ ■ Fort Worth, TX ■ La Tuna, TX ■ Leavenworth, KS ■ Lexington, KY ■ Lompoc, CA ■ Marianna, FL ■ Montgomery, AL ■ Petersburg, VA ■ Sandstone, MN ■ Taft, CA
Inmates Employed:†				
6,149	4,002	4,521	3,366	2,928
Net Sales:				
\$136,016	\$129,428	\$128,461	\$124,396	\$47,871

Some locations have multiple plants.

† The total number of inmates employed by Federal Prison Industries as of **September 1999** was **20,966**. This includes **4,157** inmates employed in support positions.

Over the past several years, the Bureau has established an Inmate Placement Program to facilitate the link between inmates nearing release and companies in search of employees. Through job fairs at the prisons and the posting of employer vacancy announcements in prison libraries, inmates are becoming aware of the demand for their skills, and employers have

come to appreciate the underutilized talent pool that exists in prisons. Following is the success story of a former FPI inmate who now works for a private sector company.

Susan Loewenberg, *Member*
FPI Board of Directors

AN "OVERNIGHT" SUCCESS

You have no doubt heard the term "overnight success" used to describe people who have seemingly burst into the limelight from nowhere. Actually, this term is somewhat of a misnomer, in that the "overnight" part generally involves years of honing one's talents to achieve the "success" part. Joe Green is no exception; his successful transition from life in prison to life as a private citizen has been years in the making.

It has been well over a year since Mr. Green was hired by Air Louvers, Inc., just one week after his release from the Federal Correctional Institution in Terminal Island, California, where he was incarcerated for 5 years. Air Louvers, Inc. is a manufacturer of vision lights for the wood and hollow metal door industry.

During his time in prison, Mr. Green worked in a UNICOR (FPI's trade name) metals factory, where he learned the metals trade, developed a strong work ethic, and acquired a level of self-assurance that developed his positive

attitude. He also participated in the Inmate Placement Program that taught him how to create an effective resume and become skilled in the job interview process, with the help of representatives from the local business community. Through these programs, Mr. Green came to the realization that he could, and would, become a productive member of society, rather than believe his only probable means of support upon release would be to return to a life of crime.

Since joining Air Louvers, Inc. as a machine operator, Mr. Green has since taken on additional responsibilities and received outstanding performance appraisals, which resulted in a pay raise. Because of his clear focus on the future and positive outlook, he earns a comfortable income sufficient to pay the rent, buy a car, and even put a little away for safe-keeping.

Air Louvers, Inc. Assistant General Manager Gary Stillwell shared that Mr. Green has voluntarily assumed increased responsibili-

ties within the sheet metal shop and noted that he is considered a model employee.

Other inmates are anxious to follow in Mr. Green's footsteps. As one inmate put it, both the UNICOR and Inmate Placement programs demonstrate that "people really seem to care about my future and are giving me the tools and chance I need to lead a crime-free life."

Employer-participants in the Inmate Placement job preparedness program have likewise been impressed with the level of job skills, work ethic, and sense of responsibility that inmates have acquired while incarcerated. As one employer stated, "My company is not interested in an inmate's past, but what the individual has done since then to change the circumstances. The job market is tight and companies are in need of skilled, hard working, willing employees." Employers have found, after conducting "mock job interviews" (a segment of the Inmate Placement training curriculum), that the inmates who work and participate in the UNICOR and vocational training programs, possess the very combination of attributes they are seeking.

When asked what roadblocks he personally faced upon release, Mr. Green shared that while he expected the worst, everyone with whom he came in contact was surprisingly polite and helpful. "People will give you a chance if

you keep your head high, have goals, and be positive. The key is that you must be ready to be a productive member of society."

Joe Green is a believer and living proof that Federal Prison Industries programs do work, providing a solid foundation for a promising, crime-free future. Air Louvers, Inc. could not agree more and hopes to hire more overnight successes, just like Mr. Green.



Joe Green's "overnight" successful transition from life in prison to life as a private citizen has been years in the making.

UNICOR

PAYING DIVIDENDS TO FPI'S CUSTOMERS

When someone mentions products being made by inmate labor, "quality" is probably not the first word that comes to mind. Unfortunately, there is a common misconception that inmate-made products are inferior. In fact, the reverse is true. Professional training and supervision provided by FPI staff enable inmates to produce a wide array of high quality products and services. This includes specialized, technical items such as missile cable assemblies, Kevlar military helmets, executive office furniture, prescription eyewear, metal prison security doors, military uniforms, and data entry of patent and trademark documents.

Under no circumstances do, or should, FPI's customers lower their standards or relax their specifications. They require FPI to meet the same quality standards as any private sector vendor. The challenge for FPI staff is to train and motivate an inmate workforce. This inmate workforce is predominantly composed of individuals (with limited educational backgrounds, job skills, or prior work experience) who produce products and services comparable to those on the open market.

FPI has recently revised

its policies to comply with the ISO 9000 quality standards. To better manage operations, FPI is implementing a new Enterprise Resource Planning (ERP) system, using software from SAP and Microsoft, and hardware from Compaq. Implementation of the new ERP system will result in virtually instantaneous data exchange, lower inventory costs, improved production planning, and direct access by customers and vendors to FPI's production schedules.

With regard to customer satisfaction, FPI staff are committed to ensuring that UNICOR is each and every customer's preferred choice. It has an outstanding website through which customers may search product offerings, place orders, or request catalogs. FPI has adopted one of the most extensive product warranties of any company. On-time deliveries continue to improve, and the scope of product offerings continues to expand.

Federal Government customers may buy



Richard G. Womack, Member
Represents Labor
Appointed to the Board March 1996

Mr. Womack has served as the Director of the AFL-CIO Department of Civil Rights since 1986. Previously, he was the Assistant Director of the AFL-CIO Human Resources Development Institute and a field coordinator for the AFL-CIO Appalachians Council. Mr. Womack is a member of the NAACP's National Board of Directors and chairs the National Coalition on Black Voter Participation.

Mr. Womack serves on the Executive Committee of the President's Committee on Employment of People with Disabilities, and he is a national board member of the A. Philip Randolph Institute. He also served as Acting Executive Director of the Leadership Conference on Civil Rights. Mr. Womack attended Cheyney University in Pennsylvania.

FPI BOARD OF DIRECTORS

RICHARD G. WOMACK

directly from FPI without having to use competitive and time-consuming procurement procedures. This saves time and expense for federal purchasing staff. By providing fair-priced, quality products on time, FPI

certainly represents a "best value" for federal customers.

Richard Womack, Member
FPI Board of Directors

IMPROVING CUSTOMER SERVICE

Improving customer service means more than just incremental reductions in delivery times. Today, more than ever, UNICOR must recognize the needs of its customers and reinvent its way of doing business, if necessary, to meet its customers' expectations. UNICOR's Electronics Program has been providing cable assemblies and wiring harnesses to Defense Department customers for decades. With shrinking budgets and more critical mission requirements, these military customers are facing increasingly complex logistical issues. Beginning in 1997, the Defense Supply Center Richmond (DSCR) and UNICOR set out to build a partnership based on the full sharing of information and the mutual understanding of missions in order to provide outstanding support to the military services.

This partnership has achieved a complete transformation in the logistical process of delivering cable assemblies and wiring harnesses to military end-users. Acquisition Lead Times and Production Lead Times (ALT/PLT) have been virtually eliminated, thanks to the planning process at DSCR and the committed support of UNICOR. With 13 electronics factories producing hundreds of National Stock Number (NSN) items and DSCR requisitioning tens of thousands of line items annually, the overall logistical process had been prone to lapses in all phases from procurement planning and manufacturing to actual delivery.

The DSCR/UNICOR partnership entails the addition of a depot function carried out at the Federal Correctional Institution (FCI) in Elkton, Ohio. All 13 electronics factories produce cable assemblies and wiring harnesses based on DSCR's estimated annual demand for 376 NSN's. These items are shipped to FCI Elkton, where they are warehoused and ready for immediate distribution to the military end-user.

Prior to this initiative, orders were typically filled in about 280 days. Today, orders are placed,

processed, shipped, and received within 10 days, usually leaving FCI Elkton the day after the data are entered into the system.

Enhancing this relationship has been UNICOR's support of the Electronic Data Interchange (EDI) implementation that was required at both DSCR and the Defense Finance and Accounting Service (DFAS). UNICOR worked hand-in-hand with DSCR programmers to convert transaction data into readable formats and with DFAS on electronic invoicing issues. According to Lieutenant Colonel Jesse Stone (Team Leader, Product Center 2, DSCR at the time of the partnership implementation), "Electronic invoicing was absolutely critical to the success of our initial EDI arrangement and a baseline requirement for future initiatives... Major changes in the work flow processes for UNICOR and DFAS were required." He went on to credit UNICOR staff for tackling "the complex problems which enable technological breakthrough and quantum improvements in business processes..."

Lieutenant Colonel Bertha Briley, current Team Leader, credits the DFAS/UNICOR partnership with first-year inventory and lead-time savings of almost \$13 million. "Since this initiative began in 1997, Product Center Team 2 has awarded three 5-year long-term agreements with FPI. In total, these agreements cover 376 NSN's with combined annual requisition lines of 34,865 and annual sales of \$16.5 million." DSCR's goal is to have 900 NSN's included in this program by Fiscal Year 2001.

Lieutenant Colonel Briley describes UNICOR staff as going "above and beyond" in resolving issues such as developing "First Articles" (first phase of quality inspection before production) for urgently needed cable assemblies for missile systems. "Communications and commitment," she says, are key to the success of this program.

PAYING DIVIDENDS TO

PRIVATE SECTOR VENDORS AND PARTNERS

Virtually every product FPI produces or every service it provides depends on private sector vendors or partners. Without these relationships, FPI would not be viable.

Approximately 75 percent of FPI's expenditures are for the purchase of raw materials, supplies, services, and equipment, all of which come from the private sector. In Fiscal Year 1999, FPI spent \$423 million purchasing raw materials, supplies, services, and equipment from private sector vendors. As a federal agency, FPI actively supports small businesses through its procurements, including small, women and minority-owned, and disadvantaged businesses. Half of FPI's purchases from private sector vendors were made from small, women and minority-owned, and disadvantaged businesses. For 6 consecutive years, FPI has received recognition from the Department of Justice for supporting such businesses. According to data provided to FPI by vendors,

several thousand private sector jobs are supported by FPI's purchases.

In addition, FPI knows that many companies are in search of workers to support their productions. FPI has partnered with several of these companies, bringing together the combined expertise of both companies and FPI's inmate workforce. Just as the economy has grown, likewise the partnership opportunities have also grown.

FPI provides many of its products and services via subcontract to companies with federal contracts. During this fiscal year, FPI also initiated a pilot program to provide, in the commercial market, services that would otherwise be performed by foreign labor outside the country. This subcontracting work is acquired competitively, without reliance on FPI's manda-

Stephen R. Colgate, *Member*
Represents the Attorney General
Appointed to the Board August 1994



Mr. Colgate is the Assistant Attorney General for Administration, Justice Management Division in the Department of Justice. As a senior career official, Mr. Colgate also serves as the Designated Ethics Officer and the Department's Chief Information Officer.

He has served as Deputy Assistant Attorney General for Personnel and Administration, and Executive Officer, Civil Rights Division. Mr. Colgate has received numerous awards including the Attorney General's Distinguished Service Award, and the Meritorious Executive and Distinguished Executive Presidential Rank Awards.

He is a graduate of the University of Arizona (B.S., 1975) and the American University (M.P.A. in Public Finance, 1976).

FPI BOARD OF DIRECTORS

STEPHEN R. COLGATE

tory source. The fact that FPI has been voluntarily chosen as a partner by highly respected private sector companies speaks volumes about the corporation's ability to produce

fair-priced, quality products on time.

Stephen R. Colgate, *Member*
FPI Board of Directors

A WINNING PARTNERSHIP

Teaming arrangements, like the one between UNICOR and Blockhouse, Inc., increase the benefits to both parties beyond what could be achieved by relying only on their own resources. Blockhouse and UNICOR have been working jointly in the development of a new line of dorm and quarters furniture called Quartet. UNICOR will offer the product line to the military services, and Blockhouse will market it to colleges as well as the military. Blockhouse also purchases some component parts from UNICOR's dimension mill factories for its government customers.

The general design for the Quartet line resulted from UNICOR's interaction with a joint-services design advisory group. To maximize the potential of the concept, UNICOR sought development assistance from the private sector. When John Brown, CEO of Blockhouse, first heard of UNICOR's interest, he had some reservations, but he was willing to consider the possibilities. "It has been a good, honest relationship; a fair relationship; an encouraging relationship," according to Mr. Brown. While UNICOR has provided product testing, photography, and literature support, Blockhouse has made significant contributions to the project by providing funding, technical

support, and prototypes. One of the more innovative aspects of the partnership is the mechanism by which development costs are paid. A percentage of actual sales (whether made by Blockhouse or UNICOR) will be



applied to development costs until the total has been repaid.

While developing Quartet has meant significant up-front costs for Blockhouse, Mr. Brown sees it as a long-term investment. The Quartet line complements Blockhouse's existing product offerings, and it exposes

FPI Contracts Awarded to Private Sector

FY 1999 (in millions)





John Brown, CEO of Blockhouse, Inc.

Blockhouse to a new market. During the development phase, Mr. Brown noticed the blend of talents that was brought to the joint effort: "Some good engineering viewpoints came from UNICOR's Product Support Center in Englewood, Colorado, and I thought the UNICOR staff enjoyed the spontaneity of Blockhouse in dealing with issues, making changes, and getting direct customer feedback. While the Blockhouse design focus was on satisfying the customer, UNICOR's focus was on manufacturing efficiency. We have the same concerns, but from different perspectives." The UNICOR and Blockhouse teams addressed numerous issues to perfect the final product.

Mr. Brown observed that the military services have begun to offer cash sign-up bonuses to new recruits. However, "quality of life is just as important to the serviceman—that's where

Quartet can make a meaningful contribution." Mr. Brown further stated, "The purchasing officers recognize quality of life issues." He also noted that the Quartet prototypes received encouraging responses at recent trade shows in Dallas, Texas, and Louisville, Kentucky.

When asked to describe the returns Blockhouse anticipated from the joint-venture with UNICOR, Mr. Brown responded: "Regardless of everything else that may transpire in the relationship, the return has been one hundred fold, *minimum*. We needed a new product line for the college market, plus the UNICOR relationship has brought about a whole room concept and we are manufacturing smarter than before. It has been an investment in education."

According to Mr. Cory Wheeland, UNICOR's Program Manager for Dorm and Quarters Furniture, "This relationship has been very good for UNICOR because our up-front development costs have been dramatically decreased by Blockhouse's willingness to fund the majority of the project. But, more importantly, UNICOR's technical expertise and insights of customers' needs have been vital to the successful development of the Quartet product line."

The benefits to UNICOR of the Blockhouse joint development effort were echoed by Mr. Jack Cantrell, UNICOR Manager for Furniture Product Support. He stated, "While UNICOR had already developed the basic product design, I recognized the opportunities in developing the product line with someone from private industry. We tend to over-engineer products and, as we worked with Blockhouse, we had to step out of the UNICOR 'Box.' It's a challenge, but we are anxious to stretch our usual way of doing things."



PAYING DIVIDENDS TO

INMATE FAMILIES AND VICTIMS

For every inmate who commits an offense, other people suffer. Every crime has a victim. Most inmates have spouses and children. In fact, there are twice as many children of inmates as there are inmates. The inmate is not alone when it comes to “paying” for the crime that has been committed.

The crime victim often suffers financial loss and the inmate is ordered to pay restitution. The courts also direct inmates to pay child and family support. Inmates who work in FPI are required to pay 50 percent of their earnings toward such court-ordered obligations. In Fiscal Year 1999, nearly \$2.5 million

was paid to these beneficiaries by FPI inmate workers who made deposits into the Inmate Financial Responsibility Program.

Paying these obligations helps inmates accept responsibility for their actions. The funds reduce public assistance costs for the family and provide restorative justice to the victim. The comments on the following page address the significant dividends the FPI program provides to families and victims.

Arthur White, Member
FPI Board of Directors



Arthur H. White, Member
Represents Agriculture
Appointed to the Board December 1997

Mr. White is Vice Chairman of Yankelovich Partners, Inc., where he has directed more than 200 research and consulting assignments for corporations, government agencies, industry associations, media and nonprofit organizations, and universities. From 1986-1992, he was President and CEO of WSY Consulting Group, Inc. In 1983, Mr. White founded Jobs for the Future, a national nonprofit organization.

From 1984-1986, Mr. White served as a member of the U.S. Department of Justice Advisory Committee on Statistical Methods. In 1994, he was named by President Clinton to the National Commission for Employment Policy.

Mr. White is a graduate of Harvard University (B.A. in Government, 1947) and Harvard Graduate School of Business (M.B.A., 1951).

FPI BOARD OF DIRECTORS

ARTHUR H. WHITE

A SENSE OF JUSTICE

It is often difficult to convince people of the importance of providing jobs to inmates—jobs that might be made available to honest, law-abiding citizens. What is usually lost in this debate is the special value these inmate jobs have for the members of our society who have been victimized by crime or were innocent bystanders, such as the families of inmates. Also affected are the members of society-at-large, who pay taxes to confine the inmates and provide welfare support to many of their families. Members of the community must also deal with ex-offenders on a personal level when the inmates are released back into the community.

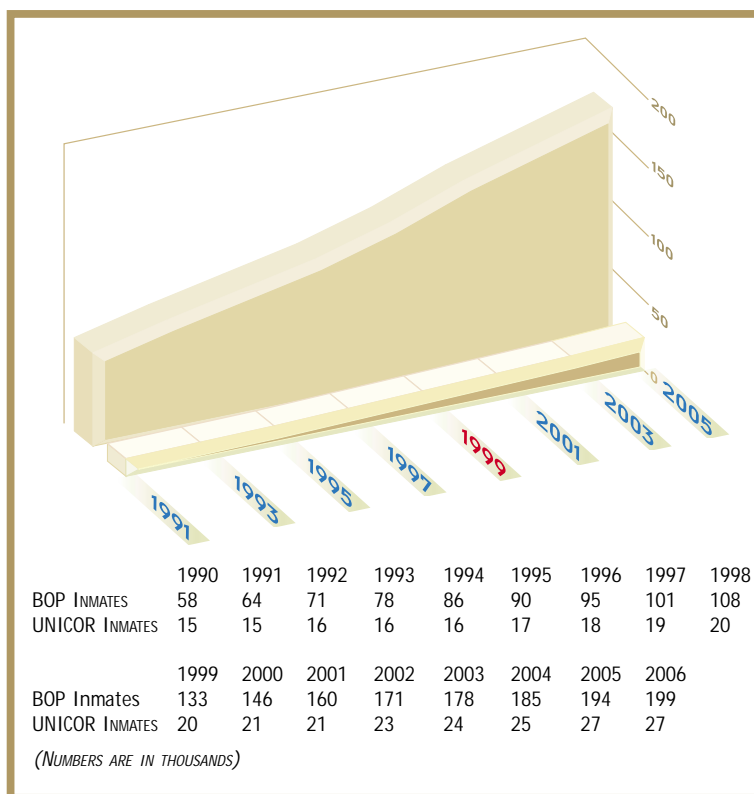
Restitution is an important element of punishment. Justice also requires inmates to be responsible for their financial obligations. Such obligations include payment of court costs, court-ordered fines, victim restitution, and child support. The Bureau of Prisons administers the Inmate Financial Responsibility Program (IFRP) in conjunction with the United States Courts. In Fiscal Year 1999, over \$7 million in court-ordered obligations was collected from inmates through the IFRP, of which inmates employed by Federal Prison Industries paid nearly \$2.5 million.

Without employment opportunities, inmates would be unable to compensate victims. According to Mr. David Beatty, Director of Public Policy at the National Center for Victims of Crime: "... one million or so dollars per year may seem insignificant. But FPI wages represent something that cannot be replaced by another source of revenue ... The notion that the offender must be held accountable and pay for the harm caused by crimes he/she committed is at the heart of jurisprudence. Crime victims often tell us that the amount of restitution an offender pays is far less important to them than the fact that the offender is paying restitution. Financial assistance from offenders has a tremendously healing and restorative power for crime victims."

An unfortunate by-product of sentencing offenders to lengthy incarceration is the transferring of child care responsibilities. According to Dr. Tom Petersik of Citizens United for Rehabilitation of Errants (CURE), it is estimated that, nationwide, including state prison systems, over 2 million children are supported by about 1

million (mostly low-income) female householders. These householders are the mothers and grandmothers of the inmates' children. Evidence repeatedly suggests that children of inmates and their households are disproportionately poor, undereducated, in poorer health, subject to more crime and violence, and have far poorer prospects than households without an incarcerated parent. The welfare and other social costs for inmates' children are frequently subsidized by the taxpayer.

Inmates who have worked for Federal Prison Industries are typically better prepared to be socially



responsible to their communities, their employers, their families, and to themselves. It is not just the work that reforms the inmate, but the opportunity that work provides for the inmate. Therefore, inmates can "own up" to their responsibilities, such as paying victim restitution, helping to support their families, and learning the principles of self-sufficiency and social awareness. Federal Prison Industries pays dividends to America by providing a sense of justice to all the parties affected directly, or indirectly, by crime.

UNICOR
MORE DIVIDENDS

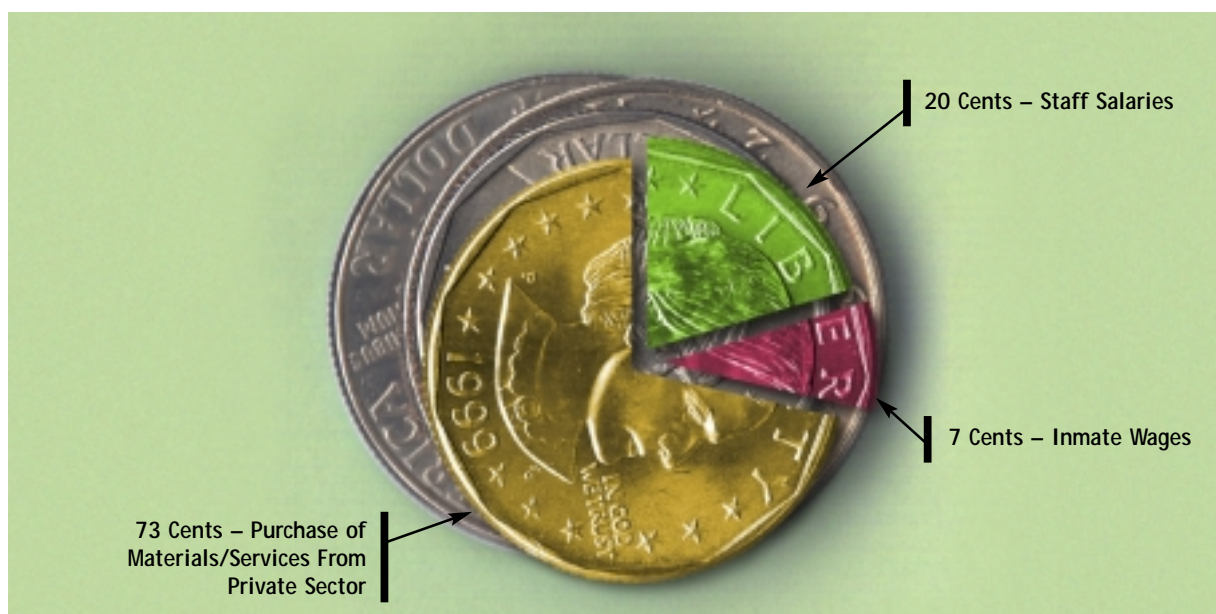
TO COME

There is something else unusual about this corporation: its Board of Directors serves without compensation. Each of us takes very seriously the responsibility to appropriately govern FPI, while concurrently representing our respective constituents. We serve out of a belief and commitment that we are making a difference in people's lives.

We take pride in the confidence and trust placed in us, and we thank FPI's customers, elected officials, and the public for their continued support. We pledge that FPI will continue paying dividends to all Americans.

Your Board of Directors...

Stephen R. Colgate
John M. Aragon
Alfred J. S. S. S. S.
Susan S. S. S. S.
Richard W. S. S. S.



UNICOR

MESSAGE FROM THE OMBUDSMAN

Fiscal Year 1999 marked my fifth anniversary as UNICOR's Ombudsman, and since assuming this position, one of my priorities has been to streamline the waiver process, while ensuring that decisions are made in a fair and consistent manner, in consideration of all parties' interests.

UNICOR's enabling statute includes a provision that allows agencies to dispute waiver denials that, until recently, were exclusively evaluated through the Ombudsman's office. Recently, however, for the first time in its 65-year history, UNICOR formally invoked its statutory provision that states that "Disputes as to the price, quality, character, or suitability of products shall be arbitrated by a board consisting of the Attorney General of the United States, the Administrator of the General Services Administration, and the President, or their designated representatives. Their decision shall be final and binding upon all parties." In short, should the Ombudsman's proposed solution for appeal resolution fail to meet an agency's expectations, the matter may be formally protested through this neutral outside board.

The three-member board, known officially as the Waiver Review Panel, includes the following members who were appointed by their representative agencies: Stephen N. Slavsky, Senior Procurement Policy Analyst, Office of the Director of Defense Procurement; Janis Sposato, Deputy Assistant Attorney General, Law and Policy, Justice Management Division; and Donald J. Suda, Special Assistant to the Deputy Associate Administrator, Acquisition Policy, General Services Administration. To date, two protests have been evaluated by the Waiver Review Panel and, in both cases, members unanimously voted to uphold UNICOR's earlier waiver dispositions.

During the past fiscal year, the number of waiver requests rose, but the procurement dollars they represented were in line with recent years. UNICOR received 16,144 requests (representing \$366.4 million) and approved 76 percent, resulting in the deflection

of approximately \$280.2 million in otherwise potential UNICOR business to the private sector. Customers appealed 286 denied waivers through the Ombudsman, estimated at \$28.5 million, of which 51 percent were overturned (redirected to the private sector). Waiver approvals were extended primarily because UNICOR was unable to meet various technical specifications and delivery needs of its customers at the time.

In the midst of recent prison reform debate that directly impacts UNICOR's status as a mandatory source supplier to the Federal Government, this year's Annual Report is a clear reminder of why UNICOR has remained in existence since 1934.

The report highlights the direct benefits UNICOR provides to the business community (including small, disadvantaged, women, and minority-owned enterprises); to the inmates who want to take personal responsibility for their successful transition back to society; and to the public's safety. Since most inmates eventually return to our communities, UNICOR's industrial and educational programs have undeniably helped keep neighborhoods safe by providing ex-offenders opportunities to become gainfully employed and remain crime-free.



Jan I. Hynson
Ombudsman

WE'VE GOT THE METAL PRODUCTS TO MEET YOUR NEEDS

UNICOR offers an extraordinary variety of versatile metal products that help you get the most out of your space and budget. Here's a sampling of what you can find:

- *Ready-to-assemble shelving in an impressive range of dimensions and strengths. Shelves can be assembled easily with hand tools, or can be assembled by us if you like, at a nominal charge.*
- *Component parts, such as bins, drawers, and doors, that instantly increase the functionality of shelving.*



- *Racking, catwalks, and mezzanines for specialized operations.*
- *Furniture and accessories that are both economical and durable.*
- *Custom-fabricated products, developed free of government solicitation requirements with UNICOR's Product Support Center. Plus, our design services are always available to help you make optimum use of your space. Depending on your project's complexity, design specialists can provide guidance over the phone, prepare sketches and estimates from a floor plan you provide, or even visit your site to develop a layout — all at no charge.*

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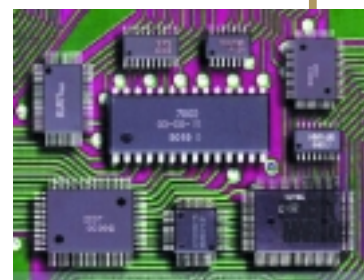
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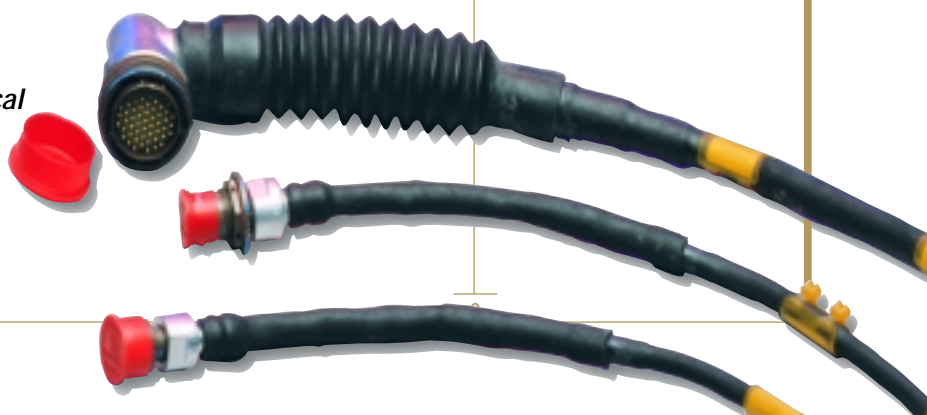
ELECTRONIC PRODUCTS

TO GET CHARGED UP ABOUT



UNICOR offers a wide range of precision electronics and electrical products and services, including:

- *Outdoor lighting systems*
- *Repair services for engines and electrical components*
- *Snowblowers and lawn mowers*
- *Kiosks*



FURNITURE YOU CAN BE COMFORTABLE

CHOOSING

UNICOR manufactures a full range of furniture selections, including modular lines of high-end, wood veneer desk/credenza and matching office products, transitional laminated office products, and durable designs for barracks or dormitory living. Seating products are manufactured to complement both traditional and contemporary applications, including ergonomic task seating, desk and conference seating, and occasional and lounge seating.

We also offer a full line of systems furniture, including:

- *ADP furniture*
- *Panel systems*
- *Wall systems*
- *Stackable panel systems*
- *Clocks, nameplates, and keyboards*



Mahogany



Oak



Cherry



Maple



Ash



Pearwood



Fog



Tundra



Earthen



A



B



C



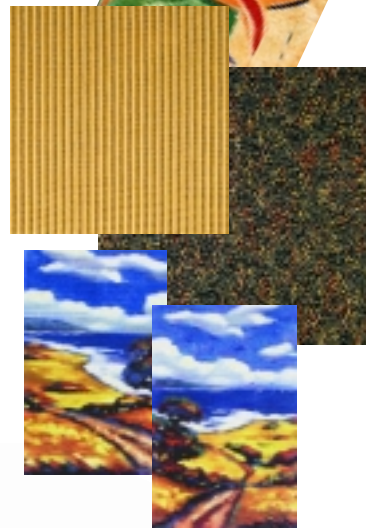
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QUALITY IS THE COMMON THREAD IN OUR TEXTILE PRODUCTS

UNICOR manufactures a wide assortment of clothing, gloves, drapery, bedding, and woven products. These include:

- *Medical textiles*
- *Clothing and military apparel*
- *Law enforcement products*
- *Mattresses, bedding, and linens*
- *Draperies*



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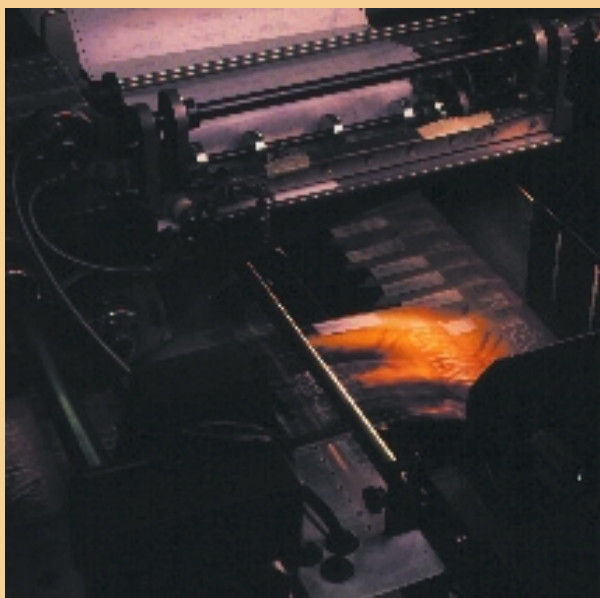
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GET YOUR MESSAGE ACROSS WITH OUR SIGNAGE,

GRAPHICS AND SERVICES



From printing, signage, and decals to data conversion, recycling, and demanufacturing, you can count on UNICOR for quality and responsiveness. Products and services include:

- *Awards, clocks, and gifts*
- *Architectural signage*
- *Data management*
- *Printing*
- *Prescription/safety eyewear*
- *Recreation signage*
- *Remanufactured toner cartridges*
- *Safety signs*
- *Exterior signage*
- *Computer recycling and demanufacturing*



UNICOR'S NATIONAL AWARD

RECIPIENTS

The key ingredient to FPI's success is its dedicated personnel, who perform their jobs above and beyond the call of duty. Fiscal Year 1999 presented many challenges and placed numerous demands on FPI's staff. Since its employees help the correctional program pay dividends to America, FPI, in turn, pays tribute to its employees in recognition of their professionalism and hard work. A summary of each UNICOR national award category appears below, along with the names of corresponding individual and group award recipients for Fiscal Year 1999.

■ The ***Assistant Director's Award for Industries, Education, and Vocational Training*** recognizes on-the-job excellence among mid-level field and Central Office managers and supervisors who have broad executive or specific managerial responsibility and who are accountable for a respective program area. Nominees must have demonstrated exemplary managerial and supervisory performance and/or made significant contributions within the scope of program responsibilities. The award recipient is:

Joseph Dubaskas
Associate Warden (Industries)
Federal Correctional Complex Allenwood
White Deer, Pennsylvania

■ The ***UNICOR Group Award for Excellence*** recognizes the UNICOR group of field or Central Office employees (program team, project team, unit, factory, business office, section, division, task force) whose contribution has positively impacted the corporation. Contributions can be in any area, such as administration, manufacturing, marketing, sales, institution relations, and/or external relations. The following two groups were presented with the UNICOR Group Award for Excellence:

Textile Program Management Staff Central Office, Washington, D.C.

Valerie Garvin, Industrial Specialist
Paul Haight, Program Manager
Carolyn Lee, Industrial Specialist
Roger Martineau, Program Manager
Joe Sers, Program Manager
Eva Switzer, Industrial Specialist
Raymundo Valdes, Program Manager
Marie-France Vareilles, Senior Program Manager

Upholstery Factory FCI Beckley, West Virginia

Tom Albright, Warehouse Foreman
Jeffrey Bolyard, Superintendent of Industries
Bret Boyd, Upholstery Foreman
Joe Chandler, Upholstery Foreman
Larry Combs, Warehouse Foreman
Mary Copeland, Upholstery Foreman
Ronnie Duncan, Assistant Superintendent of Industries
Robert Ellison, Upholstery Foreman
Dave Farmer, Upholstery Foreman
Diane Ingram, Warehouse Foreman
Tom Meritt, Factory Manager
David Nall, Business Manager
Jim Sparks, Upholstery Foreman
Kim Sparks, Contract Specialist
Lori Vanover, Accountant



Associate Warden **Joseph Dubaskas** receives the Assistant Director's Award for Industries, Education, and Vocational Training from Warden Jake Mendez.



Michael Meier, Manager, receives the UNICOR Individual Award for Central Office Excellence from Product Support Center Manager Julian Wells.



The Textile Program management staff in Washington, D.C. receive the UNICOR Group Award for Excellence from Steve Schwalb, Assistant Director, Industries, Education, and Vocational Training.



The Upholstery Factory staff in FCI Beckley, West Virginia receive the UNICOR Group Award for Excellence.

■ The **UNICOR Individual Award for Central Office Excellence** recognizes one employee whose contributions have positively impacted the corporation. Contributions can be in any area, such as administration, manufacturing, marketing, sales, institution relations, and/or external relations. The award recipient is:

Michael Meier
Manager (Metals Product Support)
FCI Englewood, Colorado

■ The **UNICOR Individual Awards for Field Excellence** recognize employees who have made significant contributions to the corporation. Contributions can be in any area, such as administration, manufacturing, marketing, sales, institution relations, and/or external relations. The award recipients are:

Aaron Aragon
Assistant Recovery Factory Manager
Federal Correctional Complex Elkton, Ohio

Kelly Kelly
Contract Specialist
FCC Beaumont, Texas

Timothy Redman
Print Plant Manager
FMC Lexington, Kentucky

Ronald Smith
Factory Manager
FCI Manchester, Kentucky

Kathleen Stevenson
Operating Accountant
USP Lompoc, California

Bill Stuby
Associate Warden
Industries and Education
USP Leavenworth, Kansas

Michael Weise
Factory Manager
FCI Loretto, Pennsylvania

Detra Willis
Factory Manager
USP Atlanta, Georgia



Aaron Aragon, Assistant Recovery Factory Manager, receives the UNICOR Individual Award for Field Excellence and the Closing the Circle Award from Superintendent of Industries Robert Bastian, Warden John LaManna, and Deputy Assistant Director John Hahn.



Kelly Kelly, Contract Specialist, receives the UNICOR Individual Award for Field Excellence from Associate Warden Rudy Cordero.



Timothy Redman, Print Plant Manager, receives the UNICOR Individual Award for Field Excellence from Associate Warden James Abele.



Ronald Smith, Factory Manager, receives the UNICOR Individual Award for Field Excellence from Warden George Snyder.



Kathleen Stevenson, Operating Accountant, receives the UNICOR Individual Award for Field Excellence from Associate Warden Dennis Johnson.



Associate Warden **Bill Stuby** receives the UNICOR Individual Award for Field Excellence from Warden J. W. Booker, Jr.



Michael Weise, Factory Manager, receives the UNICOR Individual Award for Field Excellence from Superintendent of Industries Terry Reynolds.

■ The ***Excellence in Education, Recreation, and/or Vocational Training Award*** recognizes Education, Recreation, or Vocational Training staff from the Central Office and/or field who have significantly contributed to the overall education, recreation, and/or vocational training goals of the Bureau of Prisons. The award recipients are:

Blanca R. Vega Hammond
Teacher
FCI Dublin, California

Lewis James
Supervisor of Education
FCI Tallahassee, Florida

Mark Kirby
Supervisory Recreation Specialist
FCI Ray Brook, New York



Detra Willis, Factory Manager, receives the UNICOR Individual Award for Field Excellence from Associate Warden Keith Dewberry.



Blanca R. Vega Hammond, Teacher, receives the Excellence in Education, Recreation, and/or Vocational Training Award from Superintendent of Industries William Saxton.



Lewis James, Supervisor of Education, receives the Excellence in Education, Recreation, and/or Vocational Training Award from Associate Warden Ruben Toucet.



Mark Kirby, Supervisory Recreation Specialist, receives the Excellence in Education, Recreation, and/or Vocational Training Award from Associate Warden Donald Stine.

***Congratulations to
UNICOR's Webmaster Dawn Spriggs***



During its third annual website competition, Government Executive Magazine awarded UNICOR the "Best Feds on the Web" award. UNICOR's website was selected as one of the 16 best, from a pool of more than 120 entries. UNICOR's website was recognized for its appearance, organization, consistent design scheme, and easy to find information.

Congratulations to our Webmaster Dawn Spriggs for an award-winning job! The 1999 Federal Prison Industries Annual Report can be accessed through the UNICOR Website at www.unicor.gov.

UNICOR receives "Closing the Circle" Award

Each year, the White House recognizes several individuals and organizations for outstanding environmental achievements by presenting them with the "Closing the Circle" Award. This year, the UNICOR recycling programs at Federal Correctional Institutions, Elkton, Ohio, and Marianna, Florida, received a group award in the recycling category.

Early in 1997, UNICOR began a pilot program at FCI Marianna in which excess, obsolete, or scrap computers and other electronic equipment were accepted, sorted, and disassembled. The resulting systems, components, and parts were sold for reuse or recycling. Less than a year later, UNICOR established a second computer recycling factory at FCI Elkton. Based on the success at these two locations, UNICOR recently opened a third recycling operation at the Federal Correctional Institution in Fort Dix, New Jersey.

UNICOR has filled a much needed demand by providing a viable collection,

separation, and processing site for the recycling of computer and electronic equipment. Since 1997, nearly 100 million pounds of materials have been processed. This processing saved these materials from disposal and the environmental damage this would cause, provided components and parts for reuse in the United States and overseas, and provided meaningful work for more than 200 inmates. Computer and electronic equipment is accepted from numerous sources that include: (a) federal, state, and local government agencies; (b) commercial and nonprofit businesses; and (c) private individuals. Recovered materials have been sold to individuals, recyclers, and brokers.

The "Closing the Circle" Award was presented to FCI Elkton Assistant Recovery Factory Manager Aaron Aragon, FCI Elkton Distribution Specialist William Johnston, FCI Marianna Computer Recycling Factory Manager Joe McNeal, and FCI Marianna Factory Foreman Drew Short during a special ceremony in Washington, D.C., on July 13, 1999.



Drew Short, Factory Foreman, receives the Closing the Circle Award from Associate Warden Randy Ream.



Joe McNeal, Factory Manager, receives the Closing the Circle Award and the Correctional Industries Association National Award from Associate Warden Randy Ream.



William Johnston, Distribution Specialist, receives the Closing the Circle Award from Deputy Assistant Director John Hahn.

FEDERAL PRISON INDUSTRIES, INC.

FINANCIAL STATEMENTS

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Independent Auditor's Report on the Financial Statements

Office of the Inspector General
United States Department of Justice

Board of Directors
Federal Prison Industries, Inc.

We have audited the accompanying statements of financial position of Federal Prison Industries, Inc. (FPI), a bureau of the Department of Justice, as of September 30, 1999 and 1998, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended. These financial statements are the responsibility of FPI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FPI as of September 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the "Management Discussion and Analysis" (MD&A) is not a required part of the financial statements referred to above. This information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 30, 1999 on our consideration of FPI's internal control over financial reporting and on our tests of its compliance with certain provisions of applicable laws and regulations.

Washington, DC
December 30, 1999



Independent Auditor's Report on Internal Control

Office of the Inspector General
United States Department of Justice

Board of Directors
Federal Prison Industries, Inc.

We have audited the financial statements of Federal Prison Industries, Inc. (FPI), a bureau of the Department of Justice, as of and for the year ended September 30, 1999, and have issued our report thereon dated December 30, 1999. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

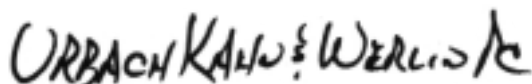
In planning and performing our audit, we considered FPI's internal control over financial reporting by obtaining an understanding of FPI's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect FPI's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

In addition, with respect to internal controls related to performance measures reported in the Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving the internal control over financial reporting which have been reported to the management of FPI in a separate letter dated January 18, 2000.

This report is intended solely for the information and use of the Office of the Inspector General of the United States Department of Justice, the Board of Directors and management of FPI, OMB and Congress and is not intended to be and should not be used by anyone other than these specified parties.



Washington, DC
December 30, 1999



Independent Auditor's Report on Compliance with Laws and Regulations

Office of the Inspector General
United States Department of Justice

Board of Directors
Federal Prison Industries, Inc

We have audited the financial statements of Federal Prison Industries, Inc. (FPI), a bureau of the Department of Justice, as of and for the year ended September 30, 1999, and have issued our report thereon dated December 30, 1999. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

The management of FPI is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of FPI's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB Bulletin 98-08.

Under FFMIA, we are required to report whether FPI's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed no instances in which FPI's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Office of the Inspector General of the United States Department of Justice, the Board of Directors and management of FPI, OMB and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Washington, DC
December 30, 1999

Federal Prison Industries, Inc.
Statements of Financial Position

September 30

(DOLLARS IN THOUSANDS)

	1999	1998
Asset		
Current:		
Cash and cash equivalents	\$ 89,309	\$ 81,728
Accounts receivable	86,123	68,457
Inventories	92,373	89,947
Other current assets	434	1,127
	268,239	241,259
Property and equipment	146,621	150,478
	\$414,860	\$391,737

Liabilities and U.S. Government Equity

Current:

Accounts payable	\$ 41,801	\$ 36,428
Customer and other advances	31,312	39,807
Accrued salaries and wages	15,160	8,678
Accrued annual leave	6,785	6,281
Other accrued expenses	12,900	9,735
	107,958	100,929
Loan payable to U.S. Treasury	20,000	20,000
Total liabilities	127,958	120,929
U.S. Government Equity		
Initial capital	4,176	4,176
Donated property	384	907
Cumulative results of operations	282,342	265,725
	286,902	270,808
	\$ 414,860	\$ 391,737

See notes to financial statements.

Federal Prison Industries, Inc.

Statements of Operations and Cumulative Results of Operations***Years Ended September 30****(DOLLARS IN THOUSANDS)*

	1999	1998
Net sales	\$ 566,172	\$ 534,279
Cost of goods and services sold	505,111	496,930
Gross profit	61,061	37,349
Interest and other income	12,795	6,557
Selling and administrative expenses	(57,239)	(46,319)
Net income (loss)	16,617	(2,413)
Cumulative results of operations, beginning of year	265,725	268,138
Cumulative results of operations, end of year	\$ 282,342	\$ 265,725

See notes to financial statements.

Federal Prison Industries, Inc.
Statements of Cash Flows

Years Ended September 30

(DOLLARS IN THOUSANDS)

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 585,627	\$ 561,462
Cash paid to suppliers	(423,361)	(418,565)
Civilian and inmate payrolls	(150,237)	(151,267)
Interest income	2,540	3,399
Net cash provided by (used in) operating activities	14,569	(4,971)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of machinery and equipment	(5,671)	(9,724)
Construction of buildings and improvements	(1,317)	(2,312)
Cash used in investing activities	(6,988)	(12,036)
Net (decrease) increase in cash and cash equivalents	7,581	(17,007)
Cash and cash equivalents, beginning of year	81,728	98,735
Cash and cash equivalents, end of year	\$ 89,309	\$ 81,728

SCHEDULE RECONCILING NET INCOME TO NET CASH

PROVIDED BY (USED IN) OPERATING ACTIVITIES

Net income (loss)	\$ 16,617	\$ (2,413)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,845	10,643
Net loss on disposal of assets	37	56
Changes in:		
Accounts receivable	(17,666)	641
Inventories	(2,426)	(6,938)
Other current assets	693	2,518
Accounts payable	5,373	(625)
Customer and other advances	(8,495)	(8,457)
Accrued salaries and wages	6,482	691
Other accrued expenses	3,109	(1,087)
Net cash provided by (used in) operating activities	\$ 14,569	\$ (4,971)

See notes to financial statements.

Federal Prison Industries, Inc.
Notes to Principal Financial Statements

Note 1.

**Organization
and Mission**

Federal Prison Industries, Inc. (FPI) was established in 1934 by an act of Congress. FPI operates under the trade name UNICOR, as a wholly-owned Federal Government corporation within the United States Department of Justice, and functions under the direction and control of a six member Board of Directors. The members, appointed by the President, represent retailers and consumers, agriculture, industry, labor, the Attorney General, and the Secretary of Defense. FPI's statutory mandate is to provide employment and training for inmates in the federal prison system while remaining self-sufficient through the sale of its products and services.

FPI's customers consist of Federal Government departments and agencies, such as the Department of Defense, General Services Administration and the Department of Veterans Affairs, and certain private sector entities. Federal organizations are required to purchase products from FPI, if its products meet the customers' price, quality, and delivery standards, under a mandatory source preference specified in FPI's enabling statute and the Federal Acquisition Regulation.

At September 30, 1999, FPI had industrial operations at 100 factories located at 68 facilities within the Federal Prison System. FPI's factories employed approximately 21,000 inmates at September 30, 1999, representing approximately 17% of the total federal inmate population.

Note 2.

**Summary of
Significant
Accounting
Policies**

Financial Statement Presentation – The financial statements include each of FPI's industrial facilities located throughout the Federal Prison System and FPI's central administrative offices in Washington, DC. All significant interfacility and interfactory transactions, including profits, have been eliminated for financial reporting purposes. FPI has historically prepared its external financial statements in accordance with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the Federal Accounting Standards Advisory Board (FASAB) was designated as the standards-setting body for federal financial reporting entities with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that accounting standards published by FASB may also be in accordance with generally accepted accounting principles for those federal entities, including FPI, that have issued such financial statements in the past.

Cash and Cash Equivalents - Cash and cash equivalents are comprised of cash and short-term repurchase agreements with the U.S. Department of Treasury. The market value of the repurchase agreements is equivalent to cost. Interest income approximated \$2,540,000 and \$3,399,000 during the fiscal years ended September 30, 1999 and 1998, respectively. Certain portions of FPI's cash and cash equivalent balances have been internally restricted to provide a sinking fund for future loan repayments (see Note 5) and to fund future purchases of inventory relating to customer advances.

Federal Prison Industries, Inc.

Notes to Principal Financial Statements

Note 2.

Summary of Significant Accounting Policies, Continued

Accounts Receivable - Accounts receivable consist of amounts due from Federal Government departments and agencies and, also, certain private sector entities. Accounts receivable, as presented in the statements of financial position, are stated net of an allowance for doubtful accounts in the approximate amounts of \$2,323,000 and \$1,181,000 at September 30, 1999 and 1998, respectively.

Accounting for Contracts - A portion of FPI's sales are made under contracts using a percentage of completion type method of accounting. FPI determines sales and gross profits based upon a unit of shipment basis. General and administrative costs are recognized as incurred. Revisions in estimated profits are made in the period in which the circumstances requiring the revision become known. Provisions are made currently for anticipated losses on uncompleted contracts.

Inventories - FPI's inventories, which are comprised of raw materials, work in process and finished goods, are stated at the lower of cost or market value, using the weighted average method. Recorded amounts are periodically adjusted to reflect the results of physical inventories. Work-in-process and finished goods inventories include the cost of raw materials, direct labor and production overhead. FPI records an inventory allowance account to reflect estimated losses for inventories which may not be utilized in the future and anticipated inventory losses for contracts in which the current estimated cost to manufacture the item exceeds the total sales price. Inventories, as presented in the statements of financial position, are stated net of such allowances in the approximate amounts of \$6,681,000 and \$3,031,000 at September 30, 1999 and 1998, respectively.

Property and Equipment - Property and equipment, including significant improvements to existing facilities, are stated at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. The straight-line method of depreciation is utilized to allocate the cost of property and equipment over their estimated useful lives, which range between 5 and 40 years.

Customer and Other Advances - FPI receives customer cash advances on certain contracts to fund significant raw material purchases. The unexpended portion of these advances approximated \$31,312,000 and \$39,807,000 at September 30, 1999 and 1998, respectively.

Accrued Leave - Annual and compensatory leave is recorded as an expense, with an offsetting liability, as it is earned by FPI's employees. The liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are recognized when taken.

Taxes - As a wholly-owned corporation of the Federal Government, FPI is exempt from federal and state income taxes, gross receipts tax, and property taxes.

Reclassifications - Certain 1998 financial statement line items have been reclassified to conform with the current year's presentation.

Federal Prison Industries, Inc.
Notes to Principal Financial Statements

Note 3.

Inventories are comprised of the following:

Inventories

September 30

(DOLLARS IN THOUSANDS)

	1999	1998
Raw materials	\$ 47,055	\$ 48,172
Work-in-process	28,519	25,295
Finished goods	23,480	19,511
	99,054	92,978
Less inventory allowance (Note 2)	6,681	3,031
	\$ 92,373	\$ 89,947

Note 4.

Property and equipment is comprised of the following:

Property and Equipment

September 30

(DOLLARS IN THOUSANDS)

	1999	1998
Machinery and equipment	\$ 95,471	\$ 91,542
Buildings and improvements	164,800	163,587
	260,271	255,129
Less accumulated depreciation	114,967	106,962
	145,304	148,167
Construction in progress	1,317	2,311
	\$ 146,621	\$ 150,478

Property and equipment is carried at cost, net of accumulated depreciation. Donated property and equipment, which is recorded at fair value at the date of donation, principally relates to property and equipment transferred from the Bureau of Prisons and other Federal Government sources. Included in property and equipment are non-operating facilities and equipment with a book value of approximately \$1,638,000 and \$2,013,000 as of September 30, 1999 and 1998, respectively, which are being held for sale or other disposition.

Depreciation expense approximated \$10,845,000 and \$10,643,000 for the years ended September 30, 1999 and 1998, respectively.

Federal Prison Industries, Inc.

Notes to Principal Financial Statements

Note 5.

Loan Payable to U.S. Treasury

Congress has granted FPI borrowing authority pursuant to Public Law 100-690. Under this authority, during fiscal year 1989, FPI borrowed \$20,000,000 from the U.S. Department of Treasury with an original lump-sum maturity or optional renegotiation date of September 30, 1998. In 1998, the loan maturity date was extended to September 30, 2008. The funds received under this loan were utilized in the construction of factories and the purchase of equipment. The loan accrues interest, payable March 31 and September 30 of each year, at 5.5% (the rate equivalent to the yield of U.S. Treasury obligations of comparable maturities which existed on the date of the loan extension). Accrued interest payable under the loan was either fully or partially offset to the extent FPI maintains non-interest bearing cash deposits with the U.S. Treasury. In this regard, there is no accrual of interest unless FPI's cash balance on deposit with Treasury falls below \$20,000,000. When this occurs, interest is calculated on the difference between the loan amount (\$20,000,000) and FPI's cash balance. The cash balance on hand at Treasury may differ from the cash balance in the statement of financial position due, primarily, to vouchers in transit.

The loan agreement provides for certain restrictive covenants and a prepayment penalty for early debt retirements. Additionally, the agreement limits authorized borrowings in an aggregate amount not to exceed 25% of FPI's net equity.

There was no interest expense for the years ended September 30, 1999 and 1998.

Note 6.

Product Sales Information

FPI's operations consist of five principal product programs. Sales information for the years ended September 30, 1999 and 1998 follows:

Net Sales

(DOLLARS IN THOUSANDS)

Product Programs

	1999	1998
Metals	\$ 124,396	\$ 140,054
Furniture	128,461	111,766
Electronics/Plastics	129,428	105,849
Graphics/Services/Optics	47,871	42,642
Clothing/Textiles	136,016	133,968
	\$ 566,172	\$ 534,279

Federal Prison Industries, Inc.
Notes to Principal Financial Statements

Note 7.

**Intra-
governmental
Financial
Activities**

FPI's financial activities interact with and are dependent upon those of the Federal Government as a whole. The following is a discussion of certain intergovernmental activities and their related interaction with FPI:

Relationship with the Federal Bureau of Prisons: FPI and the Federal Bureau of Prisons (BOP) have a unique relationship in that the nature of their respective missions require the sharing of facilities and responsibilities relative to the custody, training and employment of federal inmates. The Director of the BOP serves as the Chief Executive Officer of FPI and the Chief Operating Officer of FPI serves as an Assistant Director of the BOP. The BOP provides land to FPI for the construction of its manufacturing facilities and both FPI and BOP share certain facilities, generally at no cost to FPI.

Self Insurance: In accordance with Federal Government policy, FPI is uninsured with respect to property damage, product liability, and other customary business loss exposures. Losses incurred are absorbed as a current operating expense or, if they are induced by factors related to FPI's relationship with the prison system, may be reimbursed by BOP. Certain other costs, principally relating to personal injury claims, are paid directly by the Federal Government.

Federal Employees Compensation Act: The Federal Employees Compensation Act (FECA) provides income and medical cost protection to federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. The U.S. Department of Labor (DOL), which administers FECA, annually charges each federal department and agency for its applicable portion of claims and benefits paid in the preceding year. During the fiscal years ended September 30, 1999 and 1998, such claims and benefits, as charged to FPI, approximated \$613,000 and \$293,000, respectively.

DOL also calculates the liability of the Federal Government for future claims and benefits, which includes the estimated liability for death, disability, medical, and other approved costs. Future claims and benefits are determined from an actuarial extrapolation, utilizing historical benefit payment patterns and calculations of projected future benefit payments discounted to current value over a 23.5 year period. FPI's estimated future liability, which is included with other accrued expenses on the statements of financial position, approximated \$4,501,000 and \$3,335,000 at September 30, 1999 and 1998, respectively.

Federal Prison Industries, Inc.

Notes to Principal Financial Statements

Note 7.

Intra- governmental Financial Activities, Continued

Retirement: Substantially all of FPI's civilian employees are covered under either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees covered under CSRS (those employees hired prior to January 1, 1984), FPI withholds approximately 7 percent (for normal retirement) or 7½ percent (for hazardous duty retirement) of each employee's salary and contributes a matching amount to the fund. CSRS covered employees do not have Federal Insurance Contributions Act (FICA) withholdings and, thus, are not fully eligible to receive Social Security benefits. For employees covered under FERS (generally those employees hired on or after January 1, 1984), FPI withholds, in addition to FICA withholdings, approximately 1.3 percent of employee gross earnings, and matches such withholdings with a 7 percent contribution.

Under FERS, employees also receive retirement benefits from Social Security and, if applicable, benefits from a defined contribution plan (thrift). Under the thrift plan, an employee may contribute (tax deferred) up to 10 percent of salary to an investment fund. FPI matches this amount up to 5 percent. Those employees which elected to remain under CSRS after January 1, 1984 continue to receive benefits in place, and may also contribute (tax deferred) up to 5 percent of their salary to the thrift plan, but with no matching amount contributed by FPI.

CSRS and FERS are multiemployer plans. Although FPI funds a portion of pension benefits relating to its employees, and provides for the necessary payroll withholdings, it does not maintain or report information with respect to the assets of the plans, nor does it report actuarial data with respect to accumulated plan benefits or the pension liability relative to its employees. The reporting of such amounts is the responsibility of the U.S. Office of Personnel Management.

FPI's contribution to both plans approximated \$15,297,000 and \$13,927,000 for the years ended September 30, 1999 and 1998, respectively.

In addition, under Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, FPI recognizes its share of the true cost of providing pension benefits to eligible employees utilizing cost factors determined by the Office of Personnel Management. SFFAS No. 5 had the effect of increasing pension expense, a component of selling and administrative expense, by approximately \$3,814,000 and \$2,779,000 in the fiscal years ended September 30, 1999 and 1998, respectively, with an offsetting credit to other income in each respective year. However, because of the offsetting credit, and as more fully disclosed under Note 8, the recording of these costs have no impact on reported net income.

Federal Prison Industries, Inc.
Notes to Principal Financial Statements

Note 7.

**Intra-
governmental
Financial
Activities,
Continued**

Health Benefits and Life Insurance: FPI, through the Office of Personnel Management (OPM), offers health and life insurance plans under which premium costs for health care are shared between FPI and the employees. A substantial portion of life insurance premiums are paid for by employees. Amounts paid by FPI for health benefits approximated \$5,241,000 and \$4,742,000 for the years ended September 30, 1999 and 1998.

OPM also provides health care and life insurance benefits for FPI's retired employees. Under SFFAS No. 5, FPI is also required to recognize as an expense its share of the cost of such post retirement health benefits and life insurance on a current basis (while its employees are still working), with an offsetting credit to other income. Costs in this regard, which approximated \$3,985,000 and \$4,742,000 during the fiscal years ended September 30, 1999 and 1998, respectively, were determined by OPM utilizing cost factors which estimate the cost of providing post retirement benefits to current employees. However, because of the offsetting credit, and as more fully disclosed under Note 8, the recording of these costs have no impact on reported net income.

Future post retirement health care and life insurance benefit costs are not reflected as a liability on FPI's financial statements as such costs are expected to be funded by OPM.

Note 8.

**Selling and
Administrative
Costs**

Selling and administrative costs are comprised of the following:

Years Ended September 30

(DOLLARS IN THOUSANDS)

	1999	1998
Selling and administrative costs	\$ 57,239	\$ 46,319
Inputed pension costs (Note 7)	3,814	2,779
Inputed post retirement health care and life insurance costs (Note 7)	3,985	4,114
SFFAS No. 5 offsetting credit relating to expense recognition of inputed financing costs (Note 7)	(7,799)	(6,893)
	\$ 57,239	\$ 46,319

Federal Prison Industries, Inc.
Notes to Principal Financial Statements

Note 9.

**Commitments
and
Contingencies**

Lease Commitments: FPI has various operating lease agreements for certain of its facilities. Under these agreements, total rent expense amounted to approximately \$674,000 and \$572,000 in the fiscal years ended September 30, 1999 and 1998, respectively. In addition, FPI leases certain equipment, both in Washington and at industrial facilities throughout the prison system, under operating leases which expire over extended periods of time. Many of these operating leases provide FPI with the option (after an initial lease term) to either purchase the equipment at the then fair value or to renew the lease for additional periods of time. Future commitments under all of these lease arrangements are not significant.

Planned Construction: At September 30, 1999, various projects were in progress for the construction of new industrial facilities and the renovation of existing facilities. In this regard, BOP, on behalf of FPI, is planning to invest approximately \$10 million during the next two years for the construction of buildings and improvements. In addition, during the next two years, FPI is planning to invest approximately \$17 million for the purchase of machinery and equipment, and for continued enhancements to its computer systems.

Congressional Limitation on Administrative Expenses: Congress places an annual spending limit on certain administrative costs relating to FPI's central office (Washington, DC) management. These costs include salaries for management personnel, travel expenses and supplies. The following is a comparison of actual expenses to the limitation for the years ended September 30, 1999 and 1998:

Applicable Administrative Expenses

(DOLLARS IN THOUSANDS)

	1999	1998
Congressional limitation on expenses	\$ 3,266	\$ 3,930
Expenses incurred subject to Congressional limitation	\$ 1,272	\$ 1,957

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